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GENERAL

1. General Nagib adamant on Egyptian position:

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General Nagib told Secretary Dulles on 11 May that he foresaw a worsening of Anglo-Egyptian relations, adding: "an agreement I could make with the United Kingdom now, I will not be able to make in a month or two." He predicted that if Anglo-Egyptian differences are not resolved, the resulting situation in Egypt might be exploited by "the United Kingdom, the Communists, and others who have an interest in chaos."

The general stated that Egypt insists on full control of the Suez base, and that anything else would be an infringement of Egyptian sovereignty.

Nagib told the Secretary that no Arab government could go against the will of the people, who "hate the British" and are bitter against the United States and France for supporting Britain. A defense agreement will be possible only if confidence is re-established between the United Kingdom and Egypt. "If I and my people feel oppressed, there is no point in making an agreement with us," he declared. He charged that within a week of the conclusion of the recent Sudan agreement, British officials "began to undermine it."

Nagib stated that "after the British get out, I am pretty sure I can reach an agreement" on peace with Israel. The general added that he was prepared to discuss informally with the United States the question of planning for area defense.

Comment: Indefinite British occupation of the canal zone under present arrangements could develop into a catastrophe for Western relations with the Arab world. Britain accordingly faces the choice between unconditional withdrawal in the hope that subsequently Egypt will agree to some Western participation in maintaining the base, and remaining in the canal zone at the risk of serious disorders. There is no indication that Britain is willing to yield on its stand.

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2. Probable Communist response to new UN truce proposals:

The Communists are expected to reject flatly the current proposals of the UN Command regarding prisoners unwilling to be repatriated. The United Nations has suggested that the unwilling Korean prisoners be released as soon as an armistice is signed, and further, that those Chinese be released who remain unwilling to return after 60 days of Communist access to them.

Communist negotiators have consistently refused to agree to any arrangement which, in their view, would be likely to result in the nonrepatriation of a substantial number of prisoners. They have shown no interest in recent months in distinguishing between Korean and Chinese prisoners. They have demanded a lengthy period for "explanations" to all of the unwilling and, for those who remain so, disposition by a political conference.

The Communists have most recently sought four months for "explanations," after first seeking six; they are unlikely to compromise on less than three. Relying on India as the fifth member of the five-nation neutral commission, the Communists, if threatened with a recess in the talks, might eventually propose that the fate of those who remain unwilling to be repatriated be decided by that body.

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### SOUTHEAST ASIA

#### 6. Devaluation of piaster stirs strong reactions in Indochina:

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The reaction of the Vietnamese Government to the French devaluation of the piaster on 10 May has been emphatically unfavorable and it has formally protested France's failure to consult

it in conformity with the French-Vietnamese economic agreement. Laotian officials are reported to be even angrier than the Vietnamese at the failure of the French to consult them. A high French official expects the Cambodians to use the devaluation as a pretext for withdrawal from the Indochinese monetary union.

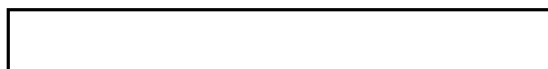
A significant unofficial Vietnamese attitude is that devaluation indicates the inherent weakness of France and favors greater Vietnamese direction of their own affairs.

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